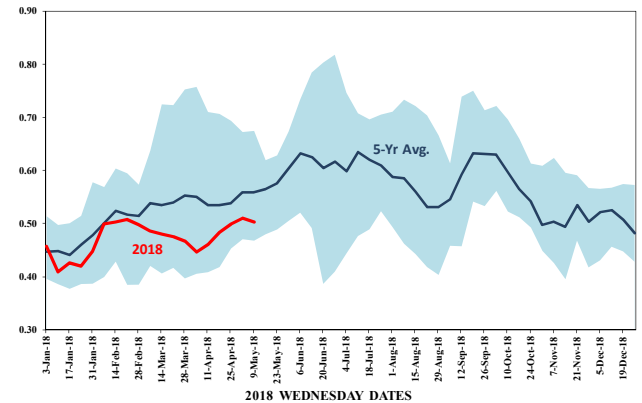


Cutbacks in slaughter during the last three work days and seasonally better demand helped bolster pork cutout values on Monday. But one needs to see how prices will perform once slaughter returns to more “normal” levels before drawing any meaningful conclusions. Slaughter last Friday was 434,000 head, it was 40,000 head on Saturday and then 449,000 head on Monday. The three day total of 923,000 head was down 4% compared to the same three day stretch the previous week and in line with the seasonally lower numbers that we should expect for this time of year. Loin prices should improve this time of year as even casual home cooks are tempted to take the cover off their grills and enjoy 75 degree evenings in the backyard. There is plenty of debate about the value of pork loins in the current market and whether they are holding their own relative to other pork products and the competition. In the past we have shown how the ratio of loins to the overall cutout and the ratio of loins relative to pork items, such as bellies, has been eroding over time. In part this reflects, in our opinion, a shift in consumer preferences towards meat products that include more fat and thus more flavor. Some of the discussions about loins are long term and have no bearing on the current market. Producing more flavorful loins will require changes in genetics, something that is not done overnight. It could also be a more costly proposition, which often tends to further delay such shifts.

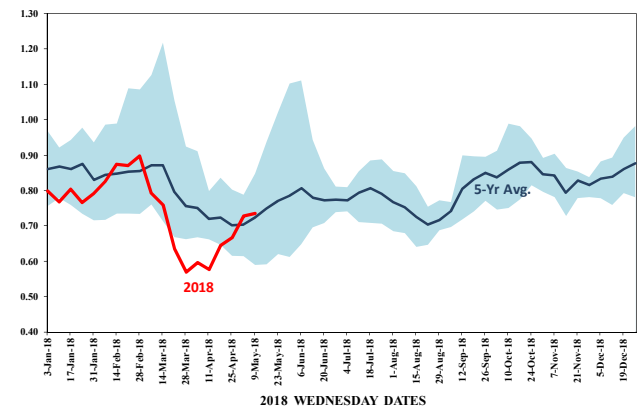
One way to look at the value of loins is to compare the price paid in the wholesale markets today with items that compete head to head in the retail case. It is our opinion that pork loins do not really compete with steak in the retail case. If a consumer wants to eat steak and can afford it, it is unlikely that they will change their mind if pork loins are selling at \$1.99 rather than \$2.99. Rather, we see the main competition for pork loins at retail as being ground beef and chicken breasts. And compared to these two items the value of pork loins is not that far out of line with history (see charts). This is important because steady demand would imply that pork loins will not trade too far from the relative value of competing items. Yesterday the price of 1/4” Trimmed Vacuumed Pack loins was quoted at \$96.92/cwt, a 0.5 multiple to the price of 81CL coarse ground retail chubs. This compares with an average 0.56 multiple for this time of year in the past five years. Last year the multiple was 0.47 and the year before it was 0.54. So while we can talk about poor pork loin demand, prices are actually trading in line relative to competing products in the meat case. The ratio of the pork loin price to the price of boneless/skinless chicken breast (the white meat) also is near average levels for this time of year.

In the short term pork loin prices will benefit from increased featuring activity. Combined with seasonally lower slaughter this should continue to bolster the value of the pork loin primal, at least through June. Retailers bought significantly more loins on a forward basis in April, likely to support Memorial Day features. Already the loin retail feature index is up 17% from a year ago and 12% vs. the five year average. Futures already have priced another 10% gain in the loin primal between now and the end of June, which is likely. Futures are also pricing a potential 60 cent gain in bellies in the next few weeks, also possible but even more uncertain.

Price Ratio of 1/4” Trimmed Loins, VAC vs. 81CL Coarse Ground Beef

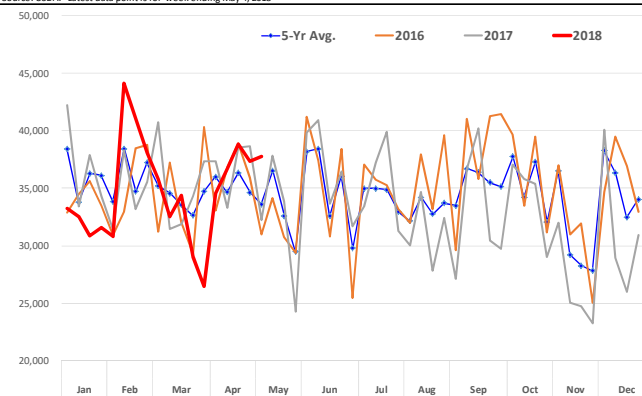


Price Ratio of 1/4” Trimmed Loins, VAC vs. B/S Chicken Breasts



NATIONAL RETAIL PORK FEATURES REPORT: LOIN ACTIVITY INDEX

Source: USDA. Latest data point is for week ending May 4, 2018



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